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Remarks

Executive Secretary

31 Jul 85

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THE WHITE HOUSE  
WASHINGTON

July 30, 1985

NOTE FOR WILLIAM J. CASEY

FROM: ROGER B. PORTER *RB*

The minutes of the Economic  
Policy Council for July 19,  
1985 are attached.

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Executive Registry

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*minutes*  
*19 Jul 85*MINUTES  
ECONOMIC POLICY COUNCILJuly 19, 1985  
3:00 p.m.  
Roosevelt Room

Attendees: Messers. Baker, Block, Baldrige, Yeutter, Whitehead, Darman, Burnley, Wright, Friedersdorf, Oglesby, Svahn, Kingon, Porter, Naylor, Khedouri, Daniels, Robinson, Moore, Niehenke, Whitfield, Low and Stuckey.

1. Implementation of the President's Section 301 Citrus Decision

Ambassador Yeutter reported on his discussions with the European Commission regarding the citrus and pasta disputes. The European Community has now agreed to reduce its subsidy on exports of pasta to the United States by 45 percent. The United States will refrain from further action in the subsidies code on pasta on the understanding that this is without prejudice to our legal interpretation of Article 9 of the subsidies code and that we have reserved our right to reopen the case if the subsidy substantially increases.

Ambassador Yeutter also reported that he and his European Commission counterparts have agreed to hold consultations on citrus with the expectation that before October 31, the European Community will have taken steps to provide a meaningful increase in market access for U.S. citrus products. He explained that this approach had been discussed with the U.S. citrus industry and that the industry was satisfied with the progress that had been made.

There was discussion on the lack of communication between the Office of the U.S. Trade Representative, the White House, and other Council members on implementation of the President's decision. Council members agreed that in the future any modification of decisions reached unanimously by the Council and approved by the President would need to be coordinated with Council members and approved before they were implemented.

2. Multifiber Arrangement Negotiations

Ambassador Yeutter reported on the decision the United States faces with respect to supporting an extension, modification, or expiration of the Multifiber Arrangement. The United States is expected to communicate its position on this issue at the June 23 meeting of the GATT Textiles Committee. Ambassador Yeutter explained that our actions with respect to negotiations on a new Multifiber Arrangement could significantly influence the textile quota legislation currently under discussion in the Congress.

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Ambassador Yeutter outlined the three options developed by the EPC Working Group on the Multifiber Arrangement:

- (1) Allow the Multifiber Arrangement to expire and return textiles to the normal GATT system;
- (2) Extend the present Multifiber Arrangement;
- (3) Modify the Multifiber Arrangement.

Ambassador Yeutter explained that the Working Group unanimously agreed that the United States should support renegotiating a modified Multifiber Arrangement. He added that he also recommended we accelerate the negotiations and put them on a fast track.

The Council's discussion focused on the length of time it would take to complete an accelerated set of negotiations, those countries which are most likely to resist such an accelerated negotiation, the types of modifications the U.S. might seek in such a new Multifiber Arrangement, the need to simplify the current complicated system, and the cost to American consumers of the current Multifiber Arrangement.

#### Decision

The Council approved the United States agreeing to engage in negotiations for a new Multifiber Arrangement. The Council also approved the U.S. representatives to the GATT Textile Committee proposing accelerating the negotiations for a new MFA.

The Council requested the Working Group on the Multifiber Arrangement to develop options for the Council's consideration regarding the specific parameters of the U.S. negotiating position and the types of modifications we would seek in a new MFA.

### 3. Agricultural Credit Policy

Under Secretary Naylor reported that the Working Group on Agricultural Credit Policy had met frequently to consider what role the Federal Government should play in addressing the credit difficulties faced by many U.S. farmers and in facilitating adjustment to a more stable farm credit situation. He indicated that this problem tracked closely with the overall farm problem. In 1981 there was approximately \$50 billion of outstanding agriculture debt.

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By 1984 this had risen to approximately \$215 billion. Equally important is the distribution of this debt. Just under 10 percent of farm operators hold approximately 45 percent of the debt and currently are in a negative cash flow situation.

He explained that this last spring when many farmers were experiencing great difficulty in obtaining operating credit we opened the flood gates with a massive increase in Farmers Home Administration direct lending. He added that the Farmers Home Administration has neither the financial resources nor the ability to manage the size of its current portfolio. From October 1 through June 19 of Fiscal Year 1985 the Farmers Home Administration provided about \$4.6 billion in direct and guaranteed loans to farmers, a 92 percent increase over the same period in Fiscal Year 1984. Direct loans made up 82 percent of the total credit provided. He added that about 30 percent of all Farmers Home Administration loans, or \$8.5 billion, is delinquent.

The dramatic increase in Farmers Home exposure is due to its position as a lender of last resort. The Working Group was unanimous in its view that we must take steps to close this door.

Mr. Naylor also briefly reviewed the current situation relating to the Cooperative Farm Credit System. The overall condition of the Farm Credit System is basically sound with between \$4 and \$6 billion in relatively liquid assets and \$500 million to \$1 billion of short term lines of credit.

Notwithstanding the overall sound credit condition of the Farm Credit System it faces two fundamental problems. First the System is highly decentralized and operates on a consensus management basis. The Farm Credit System's equity is spread among about 900 separate entities and these entities are required to share losses only if there is a technical default.

Second, the Farm Credit Administration, which oversees the Farm Credit System, lacks regulatory authority and the necessary enforcement powers to require acceptable credit standards. As a result of an increase in nonperforming loans, many districts within the Farm Credit System have had to raise their rates making them noncompetitive with many alternative sources of credit for farmers. This has resulted in many of the most credit worthy farmers leaving the Farm Credit System and undertaking their financial dealings with other institutions.

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Under Secretary Naylor outlined the options for the Council's consideration. The first would limit farmers home direct lending to servicing its existing portfolio, eliminate farmers home real estate lending, and authorize the Farmers Home Administration to guarantee new operating loans up to a maximum of 70 percent under existing qualification rules.

The second option would also limit Farmers Home direct lending to servicing its existing debt. It would limit Farmers Home real estate lending to no more than current levels. It would continue Farmers Home guaranteed loans under existing authorities with a maximum of a 90 percent guarantee.

The third option would have the same features as the first option, but in addition would entail considering creating a federally-chartered, privately-owned credit institution (Aggie Mae) to purchase nonperforming farm real estate and equipment loans from any recognized financial institution. This would allow the Farm Credit System and commercial banks to unload their nonperforming assets and permit them to remain a viable and competitive source of agricultural credit.

Under Secretary Naylor noted that none of the options was particularly desirable but that action was necessary given the current course of Farmers Home Administration lending.

The Working Group unanimously recommended option two, but agreed that additional work was warranted in exploring the potential of a new federally chartered agricultural credit institution. Mr. Naylor indicated that option two could be executed administratively around September 30, 1985.

The Council's discussion focused on the income situation in agriculture, the likelihood that a new federally chartered agriculture credit institution would become permanent and end up being the largest landlord in the country, the budget cost to the Federal government of the various alternatives, the position on credit issues taken by the American Farm Bureau and other farm organizations, and the prospects for continued deterioration in farm land prices and credit conditions during the coming year.

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The Council also discussed the need to develop a political strategy to move the agricultural sector of the economy in a market direction and the financial condition of the Farm Credit System.

The Council tentatively approved option two but wished to discuss the options paper on the Farm Credit System being developed by the Working Group before making any final decision on the options relating to the Farmers Home Administration.